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The Impact Assessment Of Debit Debt On The Effectiveness Of The Organization Performance As An Example Of Business Operations Of The Wholesaling Organizations In The Russian Federation

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Abstract

In the article the economic aspects of the impact of the debit debt on the efficiency of management by the organization generally as an example of business operation of the wholesaling organizations in the Russian Federation are considered and systematized.

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Keywords: debit debt, profit of the enterprise; earnings of the enterprise; turnover of current assets of enterprise; amount of credit debt in the enterprise

1. Introduction

The modern state of the economy, increasing competition among enterprises in all sectors, together with the huge number of unreliable contractors and low financial discipline of enterprises in general, causes an increase in debit debt. On the assumption of that, the question of the use of the debit debt as a tool to increase the volume of sales and as a consequence the increase of sales with regard to the established credit policy in the organization by the period of collection for debit debts, has a high degree of relevance and is of special importance for the management of enterprises nowadays. The analysis of changes in the structure of debit debt enables to trace in the dynamics positive and negative trends in the efficiency of the financial management in the enterprise. Debit debt as an integral part of

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the operational, financial and production cycle has an impact on all aspects of the organization performance, its effectiveness and summary results of the management.

2. Materials and Methods

The main methods of the research about the impact of the debit debt on the efficiency for management of the organization as a whole there were the methods of correlation and regression, and a retrospective analysis of economic activities in business operations of the wholesaling organizations of the Russian Federation. The aim of the study was to assess the impact of changes in debit debt, its quantitative and qualitative characteristics on such index of the performance in the enterprises as the turnover rate of current assets of the company, the company's revenue, net profit of the company, the amount of credit debt of the enterprise on the example of the wholesaling in the Russian Federation. There were analyzed statistical yearbooks for 6 years in the Russian Federation from 2007 to 2012, according to the latest available official data.

3. Results and Discussion

The debit debt in the current conditions of the economic crisis is one of the most important components of financial policy and strategy of the enterprise as a whole, its structure and dimensions clearly have a global impact on all aspects of the state of the company, its financial stability and market positioning. For companies operating in the markets of different sectors of the economy in the Russian Federation, the issue of improving the management system of debit debt is one of the most important at the present moment. Let us consider the basic indicators of the large and medium-sized wholesalers and the impact on them of the change in debit debt, respectively. One of the main economic indicators of the company are:

- a) the profit of the enterprise;
- b) the earnings of the enterprise;
- c) the turnover of current assets of the enterprise;
- g) the amount of credit debt in the enterprise.

Let us consider the effect of debit debt to the average financial performance of companies in the market of wholesales in the Russian Federation from 2007 to 2012, listed in Table 1.

Table 1. The average financial index of companies in the wholesaling market in the Russian Federation for 2007 to 2012

Reporting period	2007	2008	2009	2010	2011	2012
The average value of debit debt in billion rubles.	2777.095	3230.625	3697.575	4512.382	5698.328	5381.208
Profit (loss) from sales in billion rubles.	936.601	1419.058	988.747	1328.157	1830.971	1737.053
Operating revenue in billion rubles.	25308.6	31136.4	28258.8	32153.5	39154	42883.8
The average annual amount of current assets, in billion rubles.	15326.25	19683.35	17507.65	19624.9	23807.3	26351.9
Turnover ratio of current assets in the units.	1.65	1.58	1.61	1.64	1.64	1.63
The average value of the credit debt, in billion rubles.	2035.873	2178.442	2598.862	3084.88	3539.913	4044.967

- a) the profit of the enterprise

The change of the profit size as a result of the enterprise performance can speak as of the business effectiveness in general, and as the level of other expenses, the level of taxation, interest payments on rent, leasing and other obligations. As for the effect of debit debt on this index, here we are talking about overdue debit debt, about the

costs taken into account in the profit calculation, which are necessary for its maintenance and possible transfer for overdue debt from the strange and unreal to the recovery, and as a result the writing-off - its financial results of the organization performance.

In 2009, with an increase in annual average overdue debit debt of the enterprises by 14% on the wholesale market in the Russian Federation there was a significant decline in profit by 30% in the following years from 2010 to 2012 with an increase in debit debt there is observed commensurable increase in profit. It should be noted that the growth rate of debit debt since 2009 has been less than the growth rate of profit by an average of 8%. These trends can be explained by the economic crisis that occurred in 2008, which led to the insolvency of many customers of the wholesaling enterprises in the Russian Federation, and the corresponding anti-crisis measures. See Fig. 1.

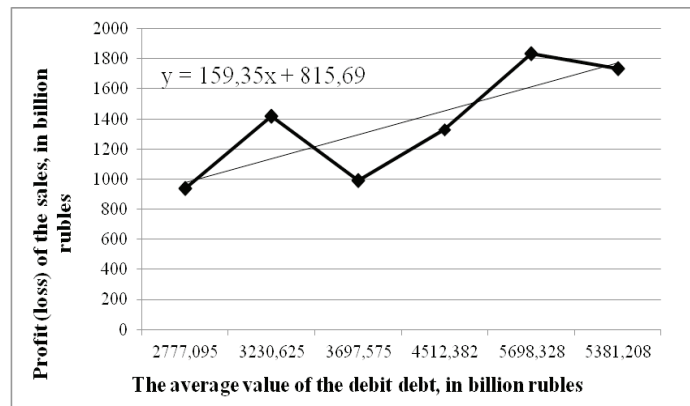


Fig. 1. The chart on the amount of profit (loss) from sales of changes in debit debt of the wholesaling organizations in Russia for the period 2007 to 2012.

b) the earnings of the enterprise

Estimating the size of the company's profit, comparing them with the costs of the company and the prior period index there can be revealed positive or negative processes and trends in the business performance of the enterprise. Analyzing the company's profit in the dynamics there can be judged the position of the enterprise in the market, its competitiveness, liquidity of goods sold now by the enterprise, marketing and sales activities, the effectiveness of the sales department performance. In this case, on a change in the level of profit influences the efficiency of the credit policy in the organization, which is the main object of debit debt. With the help of the built Figure 2 let us follow the influence of changes in debit debt on the changes in profit.

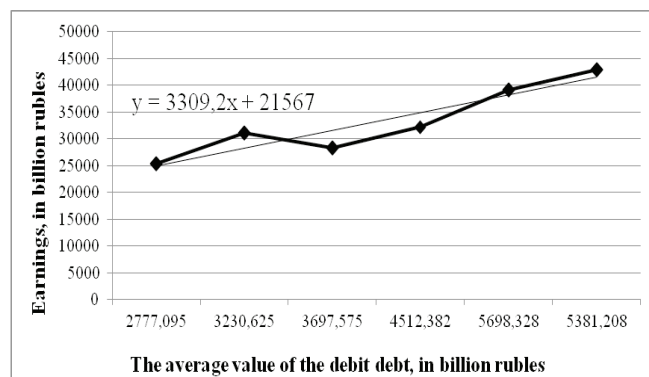


Fig. 2. The chart about the dependence of the profit amount on changes in size of the debit debt of the wholesaling enterprises in Russia for 2007 to 2012.

Analyzing the chart, we can conclude that with the increase in debit debt there is increased the enterprise profit. In conjunction with the qualitative structure of debit debt, that is about the effective use of trade credit as a tool to increase sales of goods. Trend line is without fluctuations; respectively the described trend is stable.

c) the turnover of current assets of the enterprise

Current assets are used by enterprises to finance the financial and economic activities, as in dynamics, and also in the future. The size of the current assets of the enterprise depends on the efficiency of funding necessary processes of the organization and its financial stability. Turnover ratio of current assets clearly reflects the business activity of the company, effective use of the resources with respect to the resulting profit. The higher is the index, the more efficient are used current assets, the more stability in the financial state of the company. Debit debt - an essential element of current assets of the organization, which has a direct impact on their value. Increasing the size of debit debt leads to an increase of current assets. At the same time here is very important the qualitative structure of debit debt.

The actual impact of changes in size of the debit debt on turnover ratio for the current assets of companies in the market of wholesales is reflected in the figure 3.

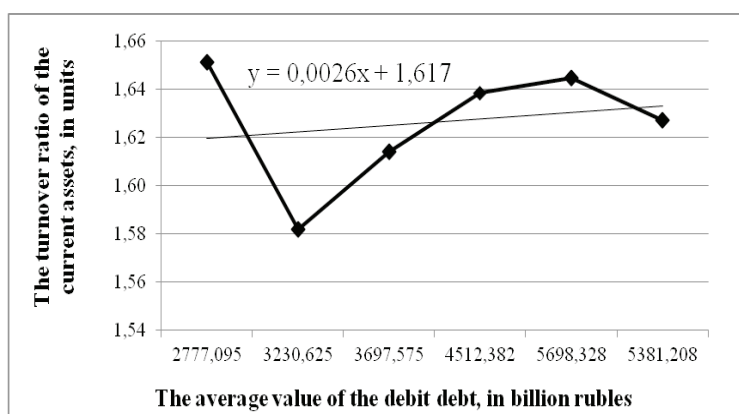


Fig. 3. The chart about the dependence of the turnover ratio for the current assets on the amount of debit debt in enterprises of the wholesaling market in Russia in 2007 and 2012.

Figure 3 shows that in general the increase in the value of debit debt in the enterprise leads to an increase in turnover ratio of current assets that is the positive quality of the debit debt, its structure, management efficiency and optimum size. It should be noted that in 2008 there was a reduction of turnover for current assets by 0.07 units. With a simultaneous increase in debit debt by 16% due to the insolvency of customers during the financial crisis. The trend line and the coefficient of the equation describe a slight increase, indicating the defective structure of debit debt.

g) the amount of credit debt in the enterprise

The amount of the credit debt says about the state of the company's solvency, financial discipline, to what extent the company will be forced to divert current assets, as well as how quickly the company receives cash to pay off their credit obligations. Consequently - overdue debit debt depends on the size of overdue credit debt. Below we consider this dependence in Figure 4.

The trend line and the coefficient of the equation describes a significant effect, indicating the dependence of the current assets on the overdue credit debt.

The above stated dependences clearly reflect the importance of effective management for debit debt as one of the key factors of successful business enterprise. Table 2 shows the regression equation which let us to assess the impact

of debit debt on these indicators.

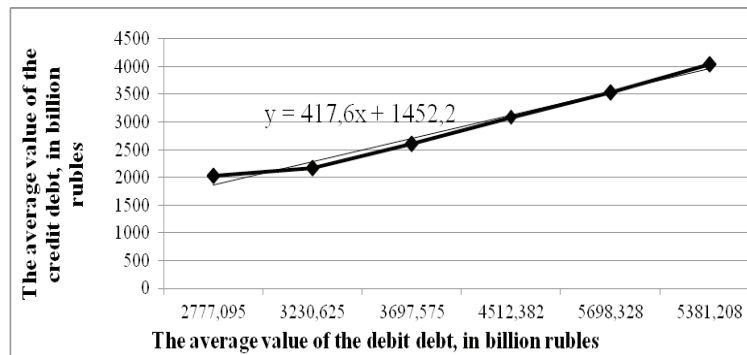


Fig. 4. The chart about the dependence of the amount for overdue credit debt on debit debt amount of the enterprise in the wholesaling market of the Russian Federation for 2007 to 2012.

Contingency of rate earnings over the rate of profit may indicate a reduction of investment opportunities of the wholesaling enterprises or reducing the consumption fund, which usually has a negative impact on the dynamics of labor productivity. From the viewpoint of provision for expanded reproduction, it is necessary to index of the earnings to be increased at a faster rate than the increase in earnings from sales.

Table 2. The dependence of indicators for organization performance by changing the amount and structure of the debit debt of the enterprises in the wholesaling market in the Russian Federation for 2007 to 2012.

Indicator name	The regression equation	The nature of the impact	Growth rate
The amount of the profit in the enterprises	$y = 159,35x + 815,69$	Significant increase	159.35
The amount of the company's earnings	$y = 3309,2x + 21567$	Significant increase	3309.2
Turnover ratio of current assets	$y = 0,0026x + 1,617$	Slight increase	0.0026
The amount of overdue credit debt	$y = 417,6x + 1452,2$	Significant increase	417.6

The growth rate of the earnings exceeds the growth rate of turnover for current assets in the wholesaling enterprises. The stated ratio reflects the axiomatic assumption of a favorable nature of such phenomena as the intensification of the enterprise property use, accelerating the turnover of the enterprise assets, enhancing its business activity as a whole. However, the growth rate of assets is far behind the growth rate of debt capital. The stated trend defines the assumption on the negative nature of the development mainly due to borrowed resources. Taking into account the liability structure of the balance, the given ratio can also be interpreted as a decrease in the growth rate of equity capital in relation to the loans, that means the reduce in the financial sustainability of the enterprise. These trends are also confirmed by the regression equation dependencies of the quantum index, the profitability on the debit debt.

4. Conclusion

The carried out analysis reflects the importance of the effective management in debit debt as one of the key factors of successful business enterprise. Following the change in indicators of the organization performance it can be concluded that the change as in the amount and also in the structure of the debit debt. It is necessary to monitor constantly the amount of the debit debt, maintaining its optimum level, since the increase in the debt does not always lead to a qualitative improvement of the enterprise performance. Control and operational monitoring of changes in debit debt will give an opportunity for the top - management of the company to predict and improve business processes and performance results, thereby increasing financial stability and profitability of the

organization as a whole.

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